

COUNTY OF NEVADA, CALIFORNIA



MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2008

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**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

	Page
Transmittal Letter	1
Required Communication	2-3
Current Year Comments - Financial Statements	4-8
Current Year Comments - Single Audit	9
Status of Prior Year Findings	10-11

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The Board of Supervisors and
the Grand Jury
County of Nevada
Nevada City, California

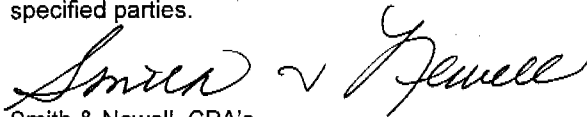
We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Nevada, Nevada City, California (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the County about matters that are important to the County's oversight role. We previously reported on internal control and compliance in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated January 16, 2009.

However, during our audit we became of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The following report summarized all our comments and suggestions including immaterial noncompliance, control deficiencies that are not considered significant deficiencies or material weaknesses and other matters involving internal control.

We will review the status of these comments during our next audit engagement. We have already discussed these findings and recommendations with the County management, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of management, others within the organization, the Board of Supervisors and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's
Yuba City, California
January 16, 2009

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Nevada, California, for the year ended June 30, 2008, and have issued our report thereon dated January 16, 2009. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility as described by professional standards, is to express opinions about whether the financial statements prepared by management and Smith & Newell, CPAs with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered County of Nevada's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether County of Nevada's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about County of Nevada's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on County of Nevada's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on County of Nevada's compliance with those requirements.

2. Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

3. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements are depreciation of capital assets and estimated cost of infrastructure assets.

Management's estimate of depreciation is based on estimated or actual historical cost and the useful lives of such assets. We evaluated the key factors and assumptions used to develop depreciation estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements are employee retirement plan and post employment benefits.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

4. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

5. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

6. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

7. Management Representations

We have requested certain representations from management that are included in the management representation letter.

8. Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

9. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the County and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-01 CAPITAL ASSETS (Financial Reporting: Material Weakness)

Condition

During our audit we noted the County had recorded adjustments to capital assets to correct prior year activity.

Cause

In the process of recording capital assets in the fixed asset system in the current year, the County discovered the manual spreadsheets used in prior years to calculate depreciation on structures and improvements contained errors and an adjustment to accumulated depreciation was needed. The County removed infrastructure assets with a cost less than \$25,000 and the related accumulated depreciation to comply with the County capitalization policy. The County also determined that infrastructure assets purchased in 1987 for the Sanitation District had not previously been capitalized. The County noted that some of these assets had recently been removed with the upgrades to the Lake of the Pines and Lake Wildwood treatment plants. The County recorded a net adjustment of (\$1,460,359) to the governmental activities and \$1,989,641, to the business-type activities for the assets acquired less those disposed and the related accumulated depreciation.

Criteria

Good internal control over capital assets requires that an accurate, current detail listing of all capital assets be maintained, that current year depreciation and accumulated depreciation be accurately calculated and recorded and that all assets meeting the capitalization policy be capitalized and depreciated.

Effect of Condition

Capital assets and related accumulated depreciation in prior years were materially misstated and required adjustment.

Recommendation

We recommend that the County thoroughly review the depreciation schedules at least annually to ensure that all items are properly included and that depreciation is calculated correctly.

Corrective Action Plan

Land, structures and improvements are being accounted for in the fixed asset module of the accounting system which will provide a detailed listing of the assets and depreciation schedules. These reports will be reviewed annually for completeness and accuracy. Capital expenditures and depreciation schedules are reviewed on an ongoing basis and adjusted for additions and deletions.

08-FS-02 ACCOUNTABILITY OF PUBLIC GUARDIAN TRUST MONIES

Condition

At the time of our fieldwork we noted that six conservatee trust accounts had credit balances indicating that monies had been paid out in excess of the available cash in the individual account. We also noted approximately \$4,733 of stale dated checks were included in the June 30, 2008 bank reconciliation.

Cause

The bank account was not reconciled in a timely manner and cash was paid out without knowledge of the correct cash balance.

Criteria

Monies held in trust should be reconciled in a timely manner to the cash held in the bank account. Stale dated checks are to be appropriately resolved.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-02 ACCOUNTABILITY OF PUBLIC GUARDIAN TRUST MONIES (CONTINUED)

Effect of Condition

Money was disbursed from individual accounts in excess of available funds.

Recommendation

We recommend that the trust bank account be reconciled in a timely manner and that all stale dated checks be appropriately resolved.

Corrective Action Plan

It is recognized that timely monthly reconciliation of the trust bank account is paramount and became the first priority for the fiscal unit of the Public Guardian after the incident in Fiscal Year 2006/2007. All monthly reconciliations were completed and current effective with the trust bank statement of September 2007 and have been and continue to be maintained in a timely manner.

Stale dated checks became the second priority of the fiscal unit with the above referenced being the first. Once the trust bank reconciliations were completed, this condition took precedence. Addressing stale dated checks began in January, 2008, and has been resolved. Stale dated checks are now monitored continually and on an on-going timely basis.

While the finding indicated six conservatee trust accounts with credit balances there are actually eight. It is also noted that the following conditions were a result of the untimely reconciliation of the trust bank account, which has been corrected.

- Account numbers 001279 & 00021: These are special needs accounts. These accounts do not maintain an active balance in the West America trust account. What occurs is the conservatee has a separate savings account form which funds are transferred periodically on behalf of the conservatee. These funds are used for specific purposes and not day-to-day expenses.
- Account number 001278: Credit balance was created as the result of a new conservatee. Accounts and funds had not yet been set-up and/or transferred, but the expenses of the conservatee had to be paid. This has been the typical process when engaging with a new conservatorship.
- Account number 001164: Due to activity after death an unanticipated invoice from a creditor's claim was received in the amount of \$485. There was the sale of personal property from the estate in the amount of \$471 which was not sufficient to cover the amount to the creditor's claim, creating a shortfall of fund. It is recognized that the creditor's claim probably should not have been paid in excess of available funds; however, it was not noted timely due to a duplicate entry of the revenue. These funds are to be re-paid to the trust through the Department's General Fund Allocation.
- Account number 001204: The negative balance of \$1,015 is a posting error and is money owed to the trust by the former conservatee. An attempt at collecting these funds is currently in process.
- Account number 000119: The negative balance of \$38 should actually be incorporated into a primary account for this conservatee which maintains a positive account balance. It appears that this secondary account was erroneously put in place to accommodate this one check disbursement.
- Account number 001219: This amount was due to discovery of a duplicate entry after final distribution for the conservatee. These funds are to be re-paid to the trust by the former conservatee.
- Account number 001252: It was discovered after the disbursement was made that the conservatee was removed from conservatorship and that the revenue received had to be reimbursed.

The fiscal unit is currently in the process of doing a thorough reconciliation of each conservatee file to ascertain that all documentation is contained in the file and is accurate. This is being completed as each conservatee court accounting requirements are being met. Additionally, fiscal staff is meeting on a regular basis with program staff to discuss the nuisances that periodically arise with individual conservatees.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-02 ACCOUNTABILITY OF PUBLIC GUARDIAN TRUST MONIES (CONTINUED)

It should be noted that staff turnover has had an impact on the continuity of the fiscal unit of the Public Guardian. There have been four people in the position beginning with Fiscal Year 2006/2007. The Department recognized the difficulty that is created by this condition and has taken steps to adequately cross-train its team members to maintain the highest level of accountability of the Public Guardian trust monies.

08-FS-03 COLLECTIONS - TRUST ACCOUNT RECONCILIATIONS

Condition

During our audit we noted that the monthly trust reconciliations contained unidentified differences.

Cause

Monthly trust reconciliations were not appropriately documented.

Criteria

To facilitate good internal control, all trust accounts should be reconciled on a monthly basis and any differences should be resolved in a timely manner.

Effect of Condition

Unreconciled trust accounts increase the possibility that errors or irregularities could occur and not be detected in a timely manner.

Recommendation

We recommend each trust account be reconciled with the Auditor-Controller's balance and any differences be resolved in a timely manner. We further recommend that the unidentified differences be resolved.

Corrective Action Plan

On July 13, 2008, a meeting was held with the Collection Division employee to discuss the reconciliation of accounts procedures. Instructions were given to the employee to begin the reconciliation of said accounts beginning with the end of the month accounts for July 31, 2008.

Additional Department of Child Support accounting staff will be assigned to the project to accomplish the work of reconciliation of trust accounts for the period January 1, 2008 through June 30, 2008.

Supervision and further review of the reconciliation of accounts by the Collection Division staff will be monitored by DCSS accounting staff to assure that the procedures are being followed.

This response does not address the reconciliation of accounts prior to the January 1, 2008 balances.

At this time it appears that the Collection Division internal trust fund records are not available prior to 2000. Further research will be necessary to ascertain whether reconciliation of the trust fund accounts can be accomplished with any certainly with the use of available outside sources(s) records.

In the interim, written procedures for reconciling the trust fund accounts will be in place and monitoring of the work will continue on a monthly basis.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-04 SHERIFF - INMATE MONIES

Condition

At the time of our fieldwork we noted that although the Inmate Trust bank account was being reconciled to the accounting records on a monthly basis the balance held in the account was not being reconciled to the Resident Balance Report

Cause

The reconciled bank balance at the end of April 2008 was \$45,875.15 and the balance of the Resident Balance Report was \$9,666.32.

Criteria

Good internal control over monies held for inmates requires that the account balance be reconciled to Resident Balance Report.

Effect of Condition

The risk of errors and/or irregularities occurring and not being detected is increased when monies held in the Inmate Trust bank account are not reconciled to the Resident Balance Report.

Recommendation

We recommend that the Inmate Trust bank account be reconciled to the Resident Balance Report on a monthly basis.

Corrective Action Plan

At that time we were experiencing long delays in receiving our profits from our Telewest inmate phone service. Since that time we have resolved the problem with Telewest. Also, since Aramark became the new commissary vendor, we opened a new checking account. With this new system and a clean bank statement the reconciliation process is much better. Aramark is still in the process of training our personnel on the reconciliation system.

08-FS-05 SHERIFF - RECONCILIATION OF TRUST ACCOUNTS

Condition

At the time of our fieldwork, we noted that although the inflow and outflows of the Civil Trust, the DOJ Livescan/CCWR Trust, and the Bails and Fines Trust were being reviewed on a monthly basis, the actual amounts held at month end were not reconciled to a detail listing of open trust items.

Cause

The Department does not have a detail listing of open trust items to reconcile to the actual amounts held in the trust accounts.

Criteria

Good internal control over monies held in trust requires that the account balance be reconciled to a detail listing of open trust items.

Effect of Condition

The risk of errors and/or irregularities occurring and not being detected is increased when trust accounts are not reconciled to a detail listing of open trust items.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-05 SHERIFF - RECONCILIATION OF TRUST ACCOUNTS (CONTINUED)

Recommendation

We recommend that the Civil Trust, DOJ Livescan/CCWR Trust, and the Bails and Fines Trust accounts be reconciled to a detail listing of open trust items at the end of each month.

Corrective Action Plan

Department staff is currently working to reconcile the Civil Trust account with the assistance of the Auditor-Controller staff. The DOJ Livescan/CCWR Trust and the Bails and Fines Trust will be addressed as soon as the Civil Trust has been reconciled.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

08-SA-01 SOCIAL SERVICE - ADOPTION ASSISTANCE

Name: ADOPTION ASSISTANCE
CFDA #: 93.659
Federal Grantor: U.S. Department of Health and Human Services
Pass Through Entity: State Department of Social Services
Award No.: N/A
Year: 2007/2008

Condition

Title 22 California Code of Regulations Section 35331 (a) requires that the determination of the child's eligibility for adoption assistance be documented in the case record on the Eligibility Certification - Adoption Assistance Program form (the AAP-4). The County does document eligibility on the AAP-4 by the completion of the form, which is signed by the "Authorized Official of Public Adoption Agency". However, a second signature is required on the AAP-4. The "Authorized Official of County Welfare Department" must sign the AAP-4 and check the appropriate box, which indicates FFP eligibility or non-eligibility.

On twenty-one of twenty-five cases tested, the AAP-4s were completed and signed by the "Authorized Official of Public Adoption Agency", but the AAP-4's were not signed by the "Authorized Official of County Welfare Department", which is the County eligibility staff.

Perspective

Appropriate training or review procedures concerning required forms completion was inadequate.

Criteria

The County is not in compliance with Title 22 California Code of Regulations Section 35331(a).

Effect of Condition

When the AAP-4 is not signed by the "Authorized Official of County Welfare Department" and/or the federal eligibility or non-eligibility box is not marked, the likelihood of errors in eligibility determination increase.

Questioned Cost

No costs are questioned. All twenty-one cases were eligible for federal Adoption Assistance. The program was that their eligibility was not properly documented, as required, on the AAP-4.

Recommendation

We recommend that the County require that the AAP-4's be signed by the "Authorized Official of County Welfare Department" (County eligibility staff) and that this person check the appropriate box showing determination of FFP eligibility on the bottom of this form. We also recommend that the County incorporate into their review process procedures to ensure that the AAP-4's are properly completed and executed.

Corrective Action Plan

All open cases are being reviewed to ensure that the AAP-4's are signed by the appropriate eligibility staff to bring the situation current. Additionally, the cases will be reviewed for the applicable AAP-2's. Going forward, staff has been instructed of the requirement of an authorized signature. Reports will be run on a monthly basis and each open case will be verified that the appropriate authorizations are contained within the case file. The report will be reviewed by the Program Manager/Supervisor monthly.

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-01	FACILITIES MANAGEMENT UNRECEIPTED COLLECTIONS Recommendation We recommend that the department receipt monies as soon as they are received. Status Implemented
07-03	SB90 REIMBURSEMENT Recommendation We recommend that the Treasurer costs be reduced by reimbursed monies. Status Implemented
07-04	PUBLIC GUARDIAN - INTERNAL CONTROL Recommendation We recommend that the internal controls that were recommended as a result of a special audit done for the year ended June 30, 2004 be implemented and that adequate review procedures be in place to ensure continued compliance. rate. Status Implemented
07-05	CLASSIFICATION OF FEDERAL AND STATE DISASTER RELIEF MONIES AGENCY FUNDS Recommendation We recommend that the fiduciary funds be closed and that the State and Federal disaster relief monies be recorded in the Road Fund or in a separate special revenue fund as appropriate. Status Implemented
07-06	STATEMENT ON AUDITING STANDARDS NO. 112 Recommendation We recommend that the County take all steps necessary to ensure that information presented to the external auditor is adequate and addresses all decisions that must be made in the compilation of the financial statements such as fund classification, revenue and expenditure groupings, and A-87 cost reimbursements. Status In Progress

**COUNTY OF NEVADA, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR FINDINGS - SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-02	<p>Name: ADOPTION ASSISTANCE CFDA #: 93.659 Federal Grantor: U.S. Department of Health and Human Services Pass Through Entity: State Department of Social Services Award No.: N/A Year: 2006/2007</p> <p>Recommendation</p> <p>We recommend that the County require that the AAP-4's be signed by the "Authorized Official of County Welfare Department" (County eligibility staff) and that this person check the appropriate box showing determination of FFP eligibility on the bottom of this form. We also recommend that the County incorporate into their review process procedures to ensure that the AAP-4's are properly completed and executed.</p> <p>Status</p> <p>Not Implemented</p>

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